The Funds For Learning®

# E-rate 2.0 Proposal

May 23, 2013

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

# E-rate Built on Strong Foundation

- Succeeding in its mission
  - 95% of U.S. students listed on E-rate applications
  - Perfectly positioned for today's EdTech needs
- Supporting all communities
  - Greater support for communities with higher need
  - Less support for areas with less need
- But that has changed…

# E-rate Straining Under Demand

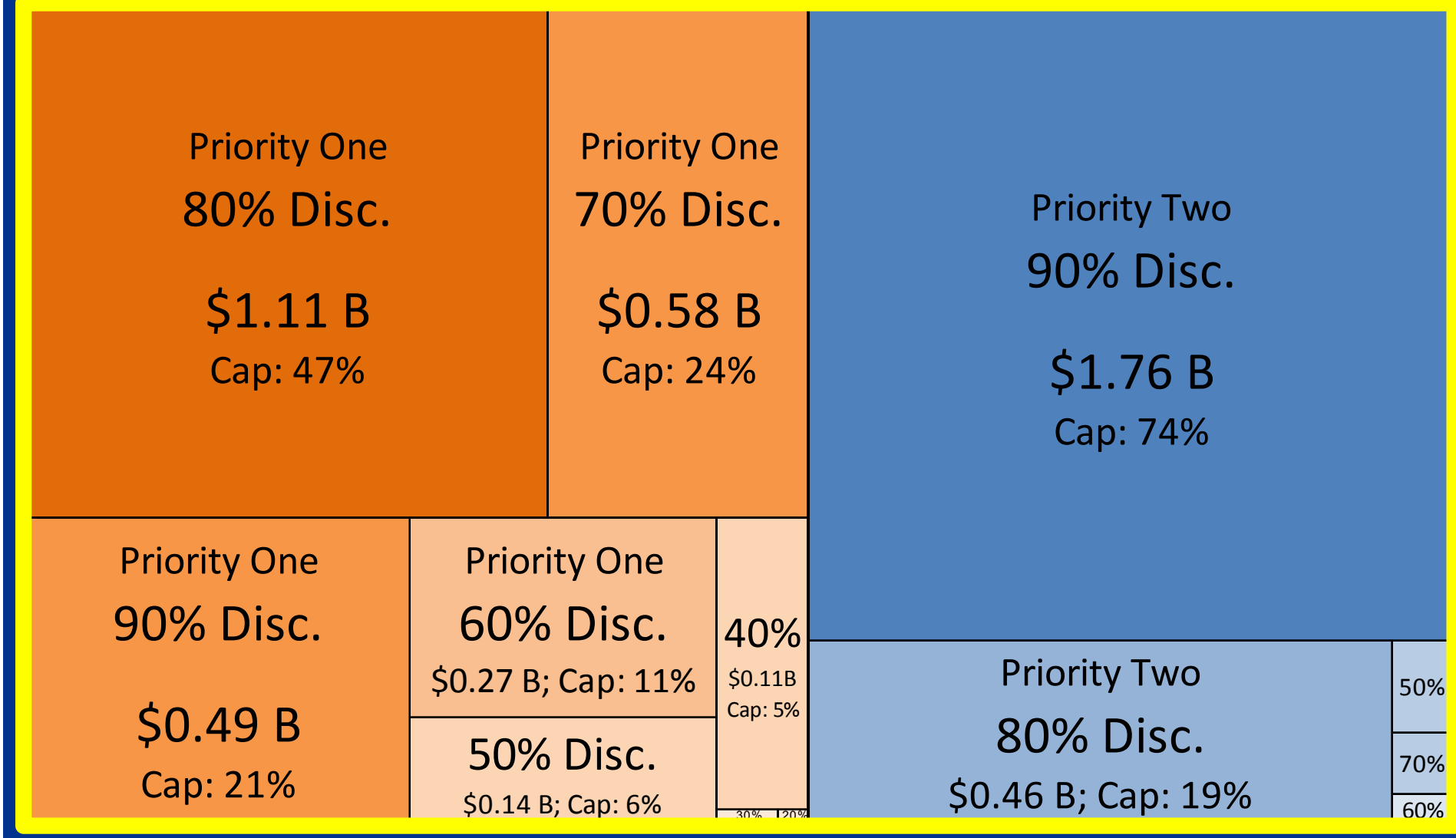
- No longer a technology neutral program
  - Priority system broken – no internal connections
    - Eliminates lease vs. purchase cost-benefit analysis
    - Encourages more expensive Priority 1 solutions
  - Creates environment for gaming the system
  - Entire cap can be spent with no contract or tech plan
- Discount threshold eliminates discount matrix
  - No longer a sliding scale funding mechanism
  - All or nothing funding for a select few

# Aggressive Applicants Dominate

- No incentive for accurate funding requests
- New purchases favored over maintenance
- Highest discount rate schools take all they want, leaving nothing for other applicants
- "Big spenders" request majority of funding
  - Inefficient applicants rewarded with big dollars
  - Incentives to select P1 tariff/MTM service

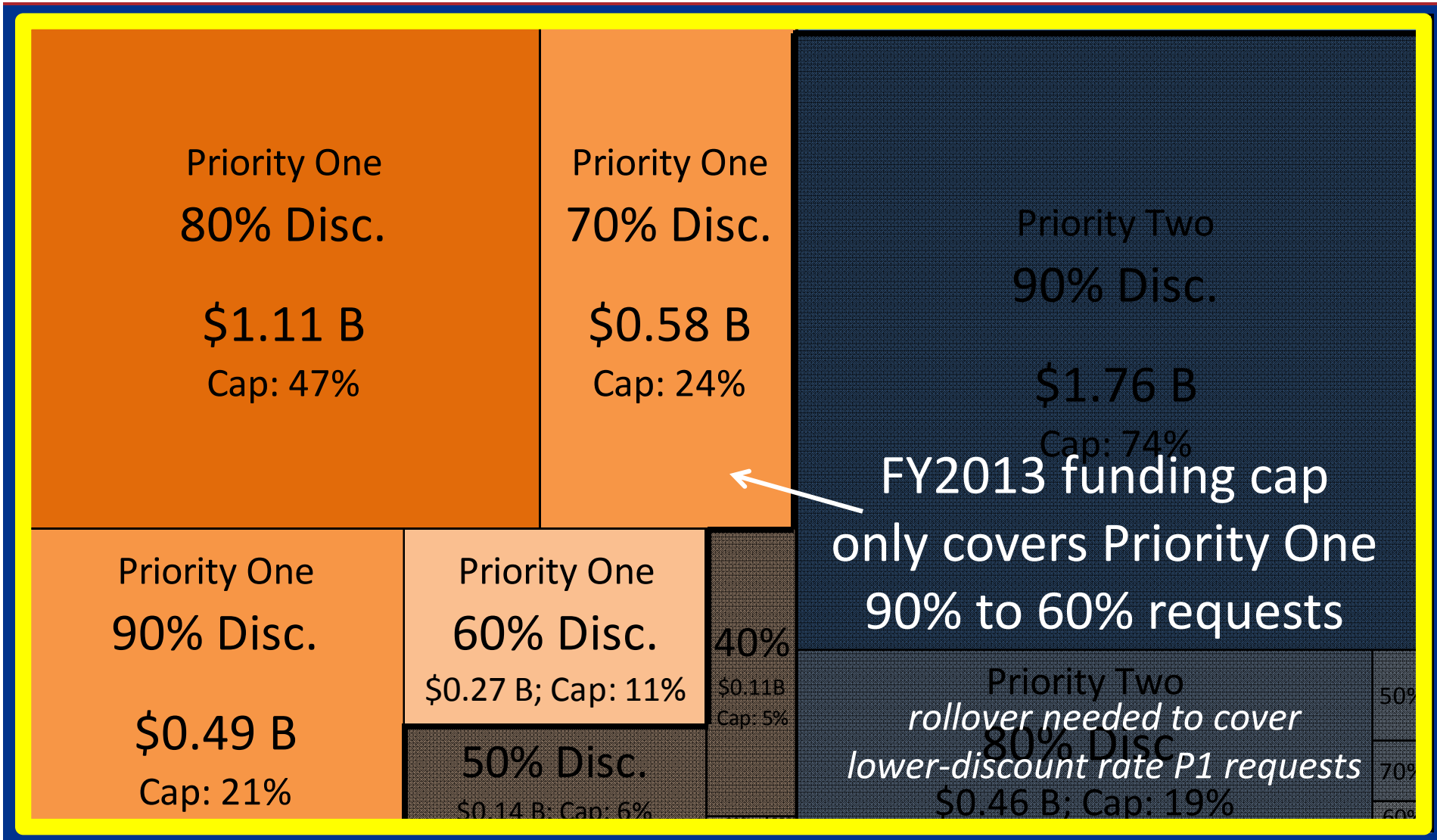
## FY2013 E-rate Demand $4.99 Billion

# By Priority and Applicant Discount

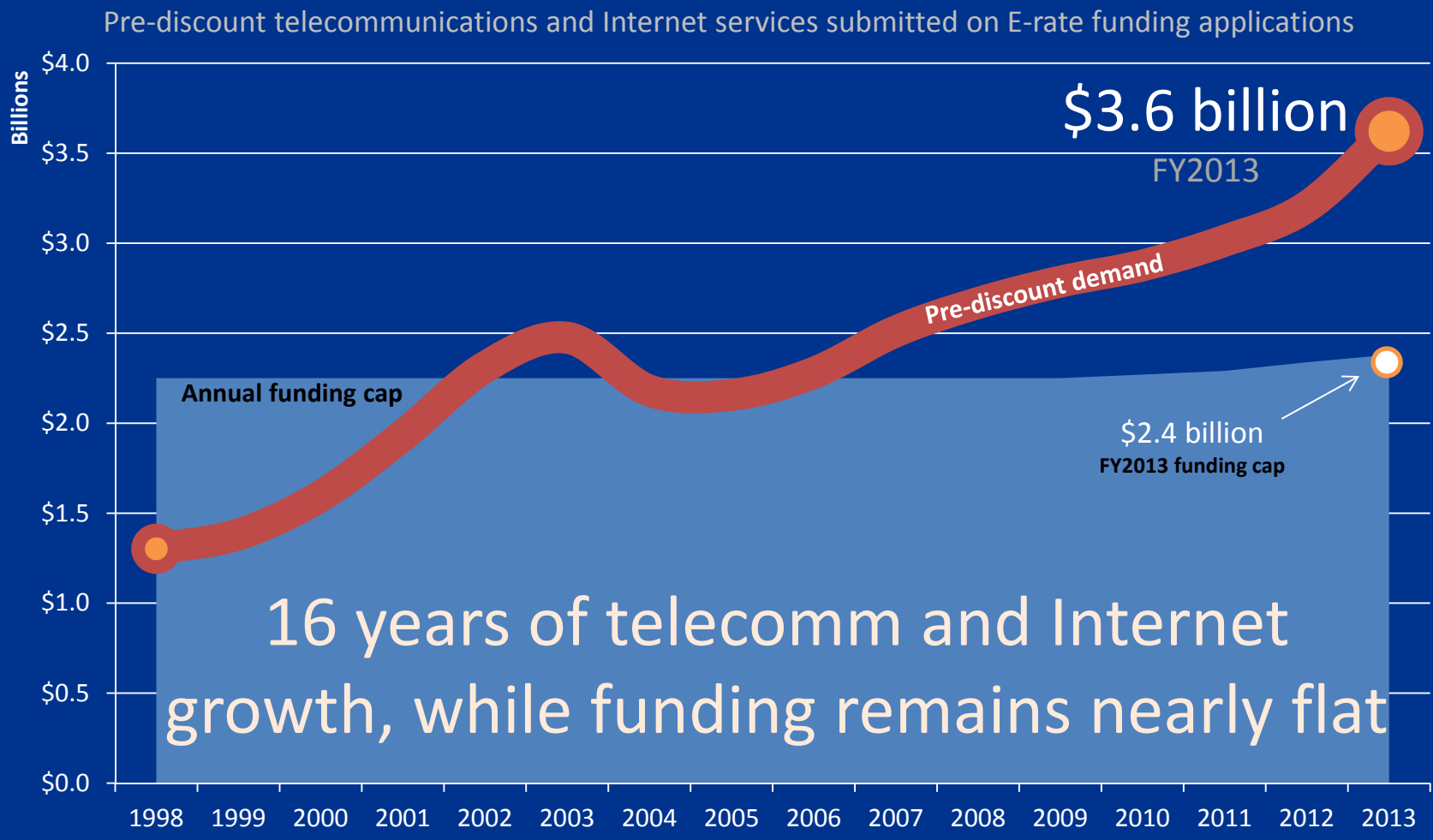


## FY2013 E-rate Demand $4.99 Billion

# By Priority and Applicant Discount



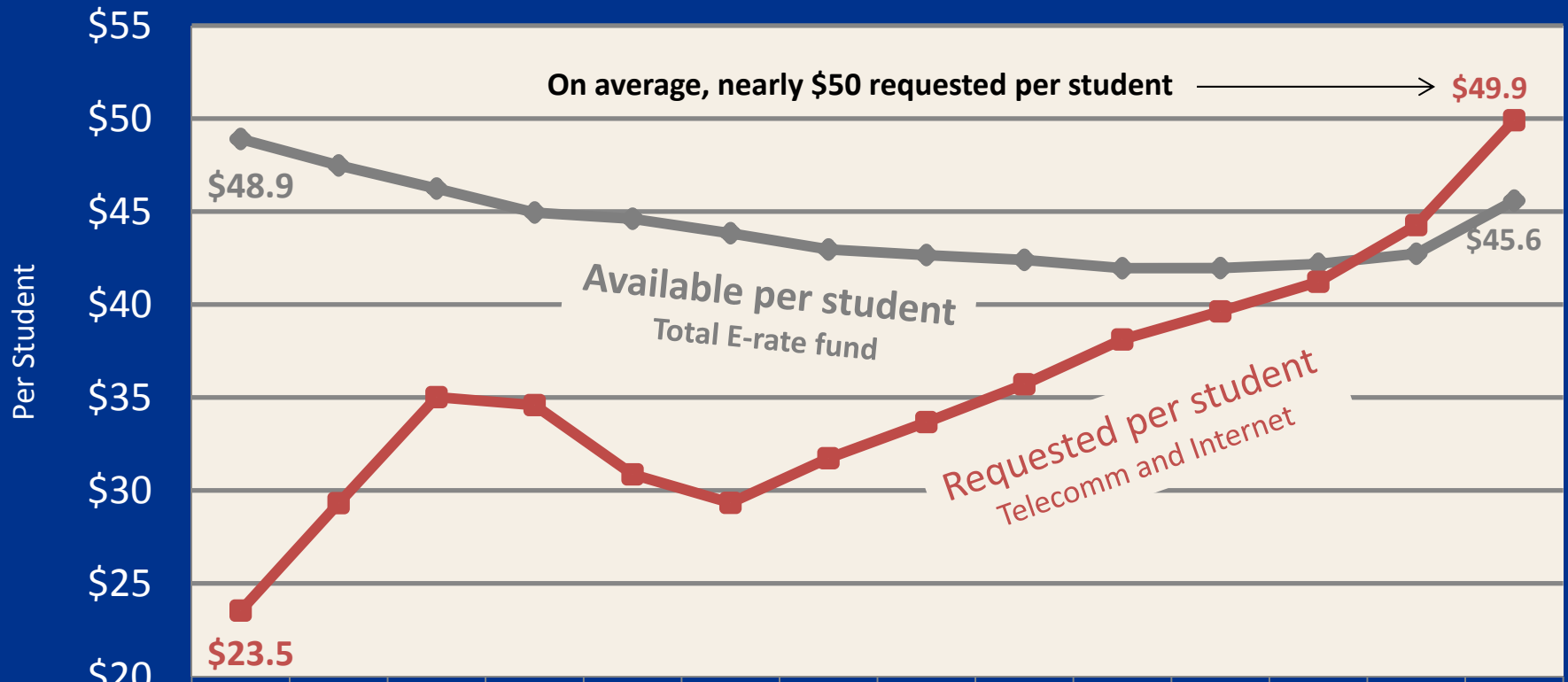
# Demand Erodes E-rate's Efficacy



# Per Student E-rate Funding

## Available vs Requested (Telecomm and Internet)

Includes consortia demand; Available amount calculated after subtracting library demand




| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Available | $48.9 | $47.5 | $46.2 | $44.9 | $44.6 | $43.8 | $43.0 | $42.7 | $42.4 | $42.0 | $42.0 | $42.2 | $42.7 | $45.6 |
| Requested | $23.5 | $29.3 | $35.0 | $34.6 | $30.9 | $29.3 | $31.7 | $33.7 | $35.7 | $38.1 | $39.6 | $41.2 | $44.3 | $49.9 |

# Current Path Unsustainable

- No internal connections for any applicants
- Funding Year 2014: 70% P1 discount threshold
  - › No support for 45% of libraries and 47% of schools
- Funding Year 2015: 80% P1 discount threshold
  - › No support for 84% of libraries and 71% of schools
- Going forward, political support wanes as E-rate funding disappears for most applicants

# Proposed Solution Framework

# Proposal Overview

- Keep current discounts and eligible services
- Eliminate “unlimited” funding requests
- Allow applicants to set their own priorities
  - › Discounts used for any service category, any site
  - › Offer all applicants access to a meaningful amount of E-rate support every year
- Promote equitable distribution of funding
- Increase cap to $4.5 billion/year

# Updating the E-rate Program

## Revised structure to help applicants budget their needs

- Restore funding for all service categories
- Allow flexibility for local funding priorities
  - › Insuring all eligible requests receive *some* support
  - › But keeping most funding for highest need schools
- Create long-term funding structure
  - › Anticipates changes in funding levels (increases/rollover)
  - › Easily adjust for other changes such as disc. matrix

# Existing E-rate System + Budgets

- Maintain (no change)
  - Graduated discount rate system
  - Current ESL/470/471/PIA/payment process
- Eliminate unlimited budgets (current system)
- Establish flexible budget ceiling system for applicants
  - Per student limits for schools; per patron for libraries
  - Tied to available USF funding
  - Per capita rates published before filing window
- Tie applicant budget amount to their discount rate
  - Highest per capita budgets to highest disc rate applicants
  - Budget floors set for small schools and libraries

# Proposal Objectives

- Build on successful aspects of current E-rate
- Provide equitable, sliding scale of support
- Offer systemic improvements
  - Minimize delays while increasing predictability
  - Encourage technology planning and prioritizing
- Encourage accurate funding requests
- Reduce waste and abuse

# Per Student Budget Calculation

- FCC publish per student pre-discount amount
- School district calculates discount rate (as before)
- Ceiling calculated by multiplying per student factor by discount rate by enrollment

| Discount Ceiling | = | Pre-Discount Per Student Rate (Set by FCC) | X | Discount Rate | X | Enroll |
|---|---|---|---|---|---|---|

- Example: $115 pre-discount target by FCC
  - › 80% school district
  - › Multiplied by $115 = $92 / student max discount

# Budget Floor for Small Schools

- FCC sets pre-discount budget floor
  - Min. amount before budget ceiling is activated
  - Protects small schools
- School district calculates discount rate (as before)
- Floor calculated by multiplying pre-discount budget floor by discount rate of applicant
- Doubled for sites classified as "rural remote"

| Budget Floor | = | Pre-discount Floor (Set by FCC) | X | Discount Rate | X | Remote Rural Multiplier |
|---|---|---|---|---|---|---|

# Proposal Details

- Eliminates need for 2-in-5 rule
- Eligible services list can stay as-is
- Schools set their local priorities
  - › An applicant's requests can total no more than the calculated budget ceiling
  - › Applicants may allocate some or all of their budget to support consortia applications
- Library budgets based on per patron measure
- Remote rural locations have higher minimum

# Benefits of Budget Ceiling

- Produces more predictable projects and services
- Encourages efficient use of funds
- Allows funding to be released more quickly
- Reduces excessive and/or frivolous $ requests
- Diminishes or removes incentives to
  - Replace equipment before end of life
  - Gold plate networks and game the P1/P2 system
- Protects against “mega” requests
- Limits waste/fraud/abuse potential per entity

# Works in Conjunction with Other Potential Program Changes

- Accommodates future increase(s) to fund without retooling the program
- Works with other changes being discussed
  - › Augments other changes, but…
  - › Also reduces need for some changes
- Could facilitate:
  - › Individual applicant “rollover” one year to next
  - › Multi-year funding commitments

# 2003 Waste, Fraud & Abuse Task Force

- *"the Commission should consider imposing some ceiling on the amount of funding which applicants can request."*
- *"…would help ensure that applicants are submitting the most cost-effective funding requests by eliminating what some may perceive as a "blank check."*

# Estimated Result of Budget System

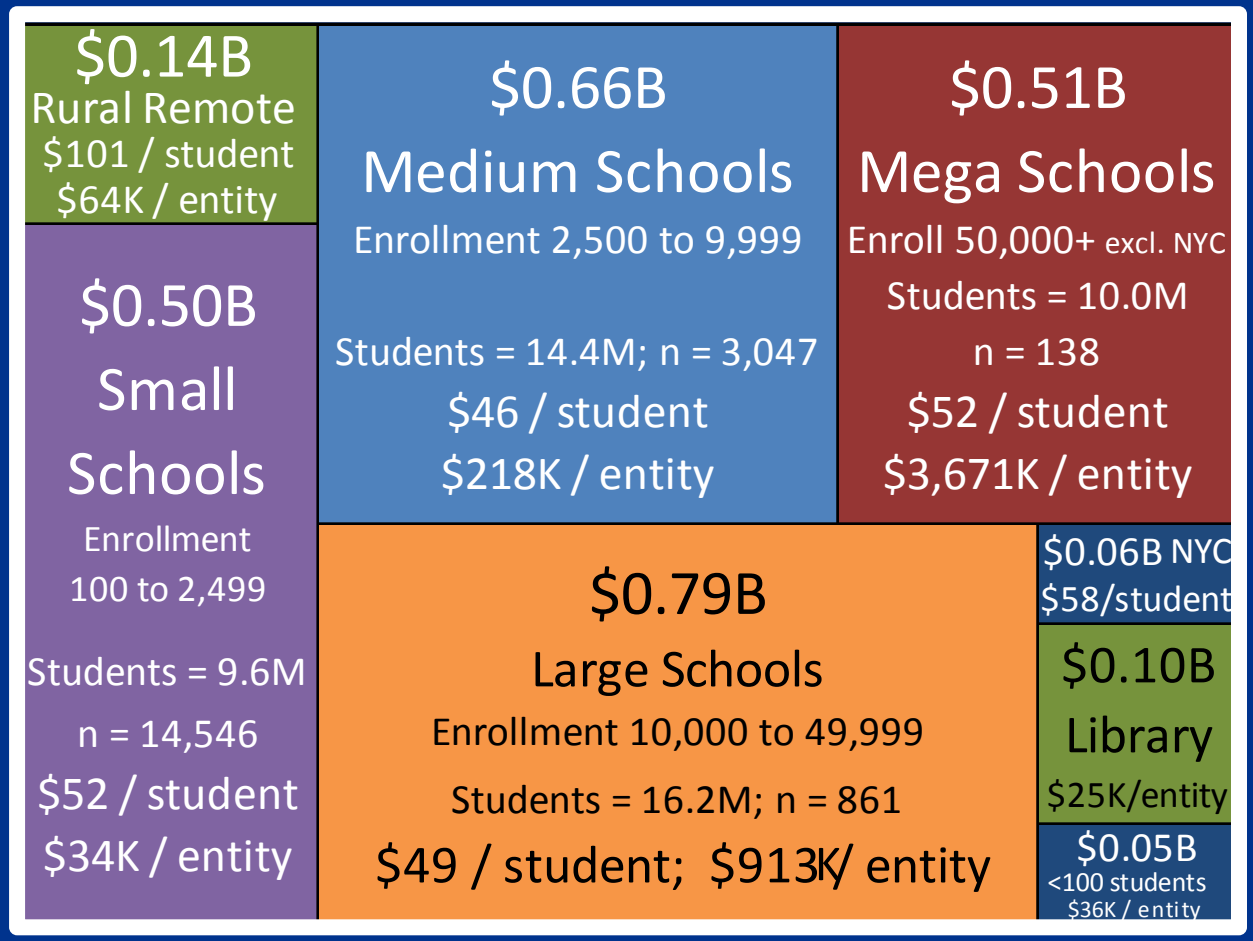
## Based on E-rate 2.0 Proposal

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

# Results of Funds For Learning® Proposal

# Option #1: $2.80B Current cap + rollover

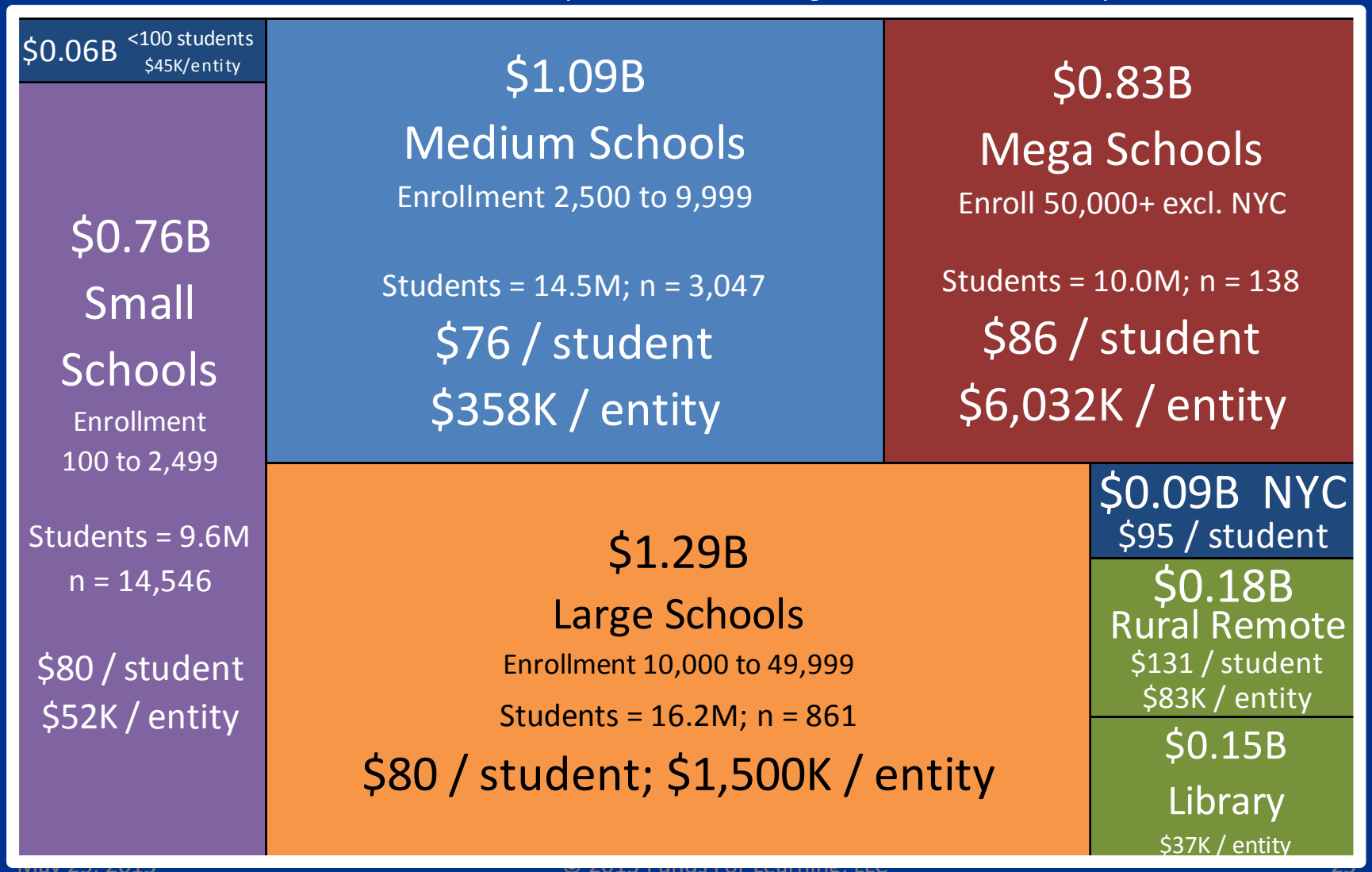
Per Student Factor = $70 per student; Funding floor = $34,000 / entity




$25 million ← The size of this square represents $25 million of funding commitments.

# Results of Funds For Learning® Proposal
# Option #2: $4.46B

Per Student Factor = $115 per student; Funding floor = $40,000 / entity



# Sample School Budgets

## Based on E-rate 2.0 Proposal

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

# Sample Budget Calculation #1

## Urban School District

- Pre-Discount Student Rate Ceiling: $115
- Pre-Discount Per Applicant Floor: $40,000
- Applicant: Enrollment = 4,000;  Discount = 80%

| | Pre-Discount Per Student Rate | | Applicant Discount Rate | | Applicant Enrollment | | |
|---|---|---|---|---|---|---|---|
| Ceiling = | $115 | X | 80% | X | 4,000 | = | $368,000 |

| | Pre-Discount Applicant Floor | | Applicant Discount Rate | | Rural Remote Multiplier | | |
|---|---|---|---|---|---|---|---|
| Floor = | $40,000 | X | 80% | X | 1 | = | $32,000 |

Max of Ceiling and Floor calculations

**Discount Budget = $368,000**

# Sample Budget Calculation #2

## Remote Rural School

- Pre-Discount Student Rate Ceiling: $115
- Pre-Discount Per Applicant Floor: $40,000
- Applicant: Enrollment = 125; Discount = 90%

| | Pre-Discount Per Student Rate | | Applicant Discount Rate | | Applicant Enrollment | | |
|---|---|---|---|---|---|---|---|
| Ceiling = | $115 | X | 90% | X | 125 | = | $12,936 |

| | Pre-Discount Applicant Floor | | Applicant Discount Rate | | Rural Remote Multiplier | | |
|---|---|---|---|---|---|---|---|
| Floor = | $40,000 | X | 90% | X | 2 | = | $72,000 |

Max of Ceiling and Floor calculations

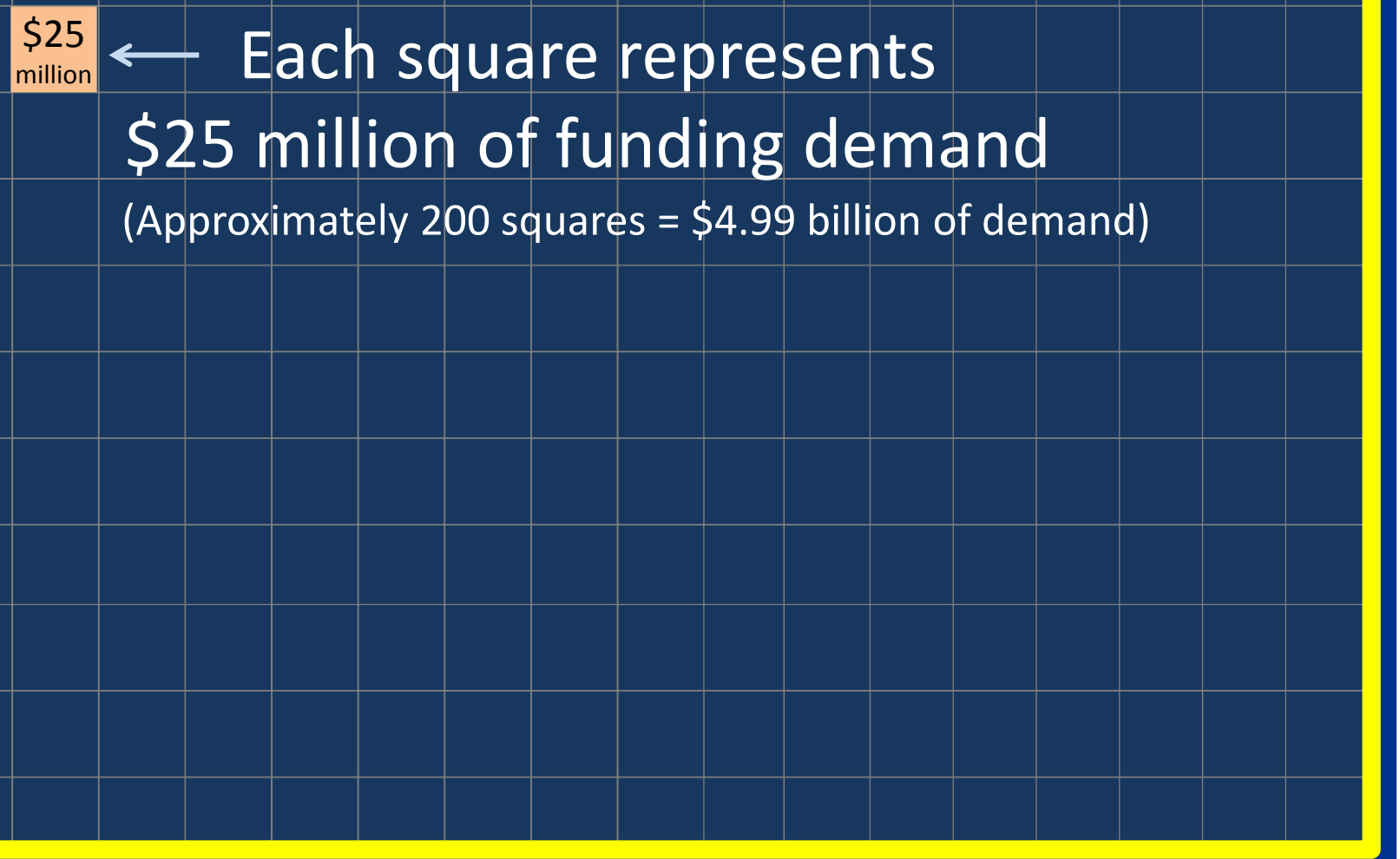
**Discount Budget = $72,000**

# Understanding the FY2013 E-rate Fund Demand

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

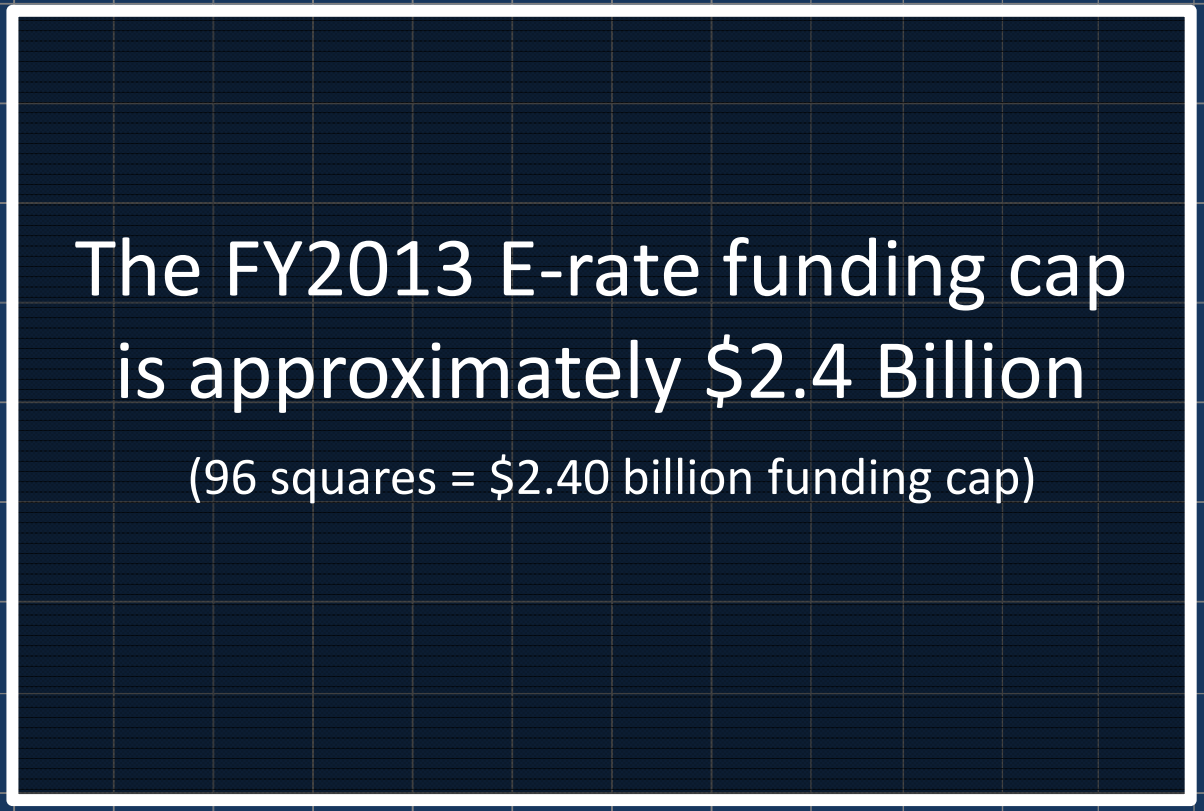
FY2013 E-rate Demand

# Total Demand: $4.99B



## FY2013 E-rate Demand

# Total Demand: $4.99 Billion



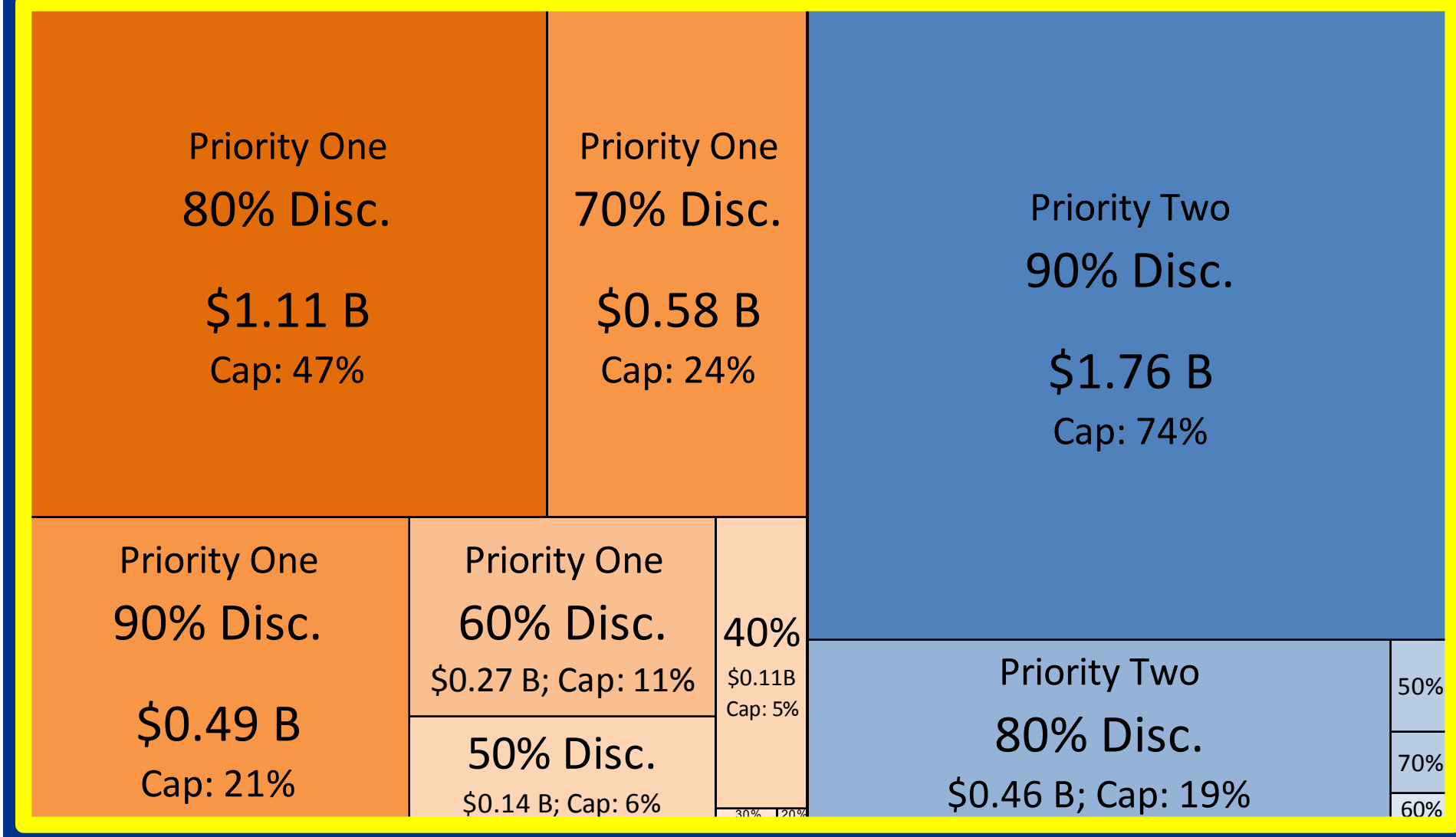

The area outside the white box represents the difference between the demand and the funding cap.
(Approximately 104 squares = $2.60 billion difference)

## FY2013 E-rate Demand $4.99 Billion

# By Priority Designation

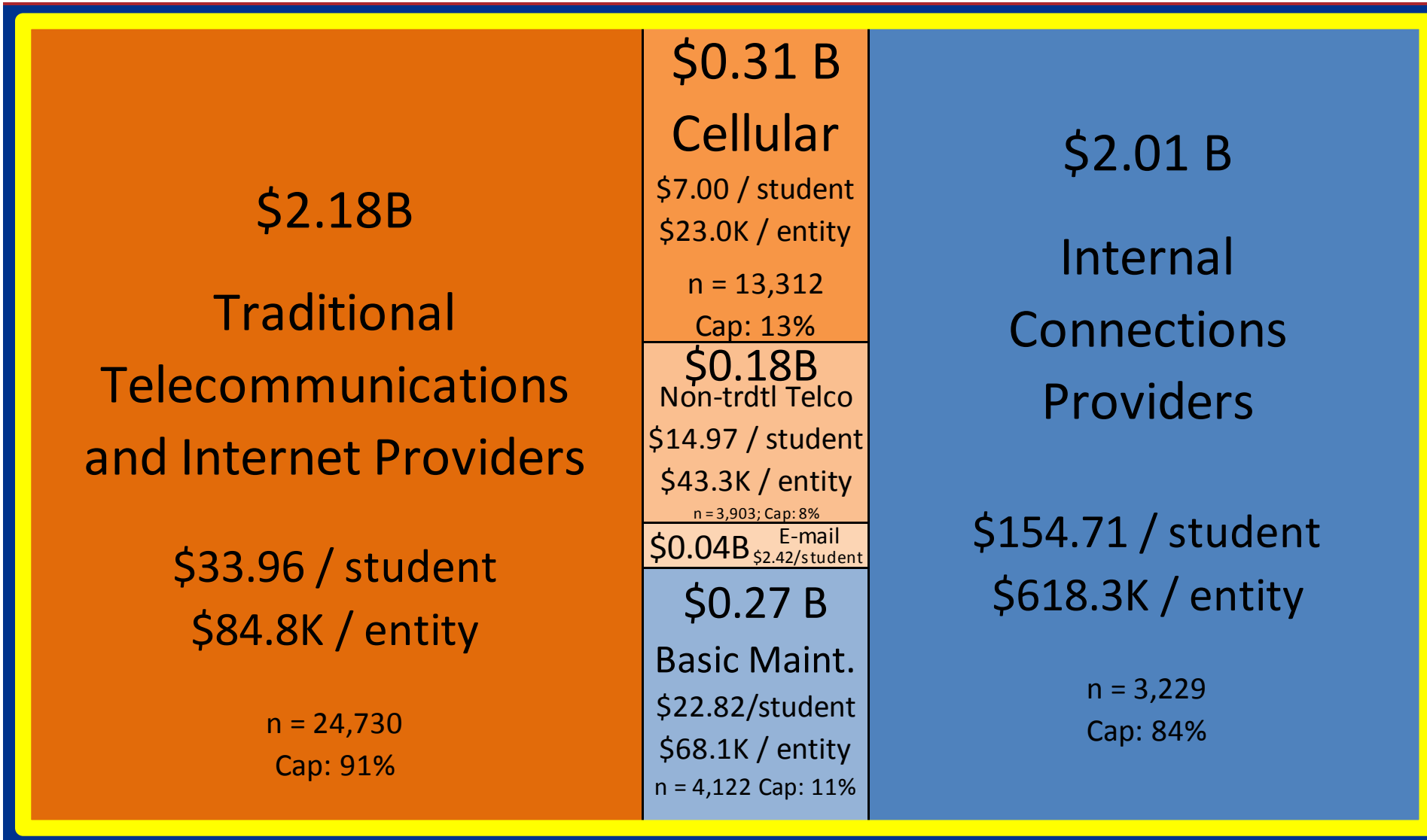
| Priority One | Priority Two |
| --- | --- |
| Telecommunications and Internet | Internal Connections and Basic Maint |
| $2.71 B | $2.28 B |
| Portion of Annual Cap: 114% | Portion of Annual Cap: 74% |

# FY2013 E-rate Demand $4.99 Billion
# By Priority and Applicant Discount

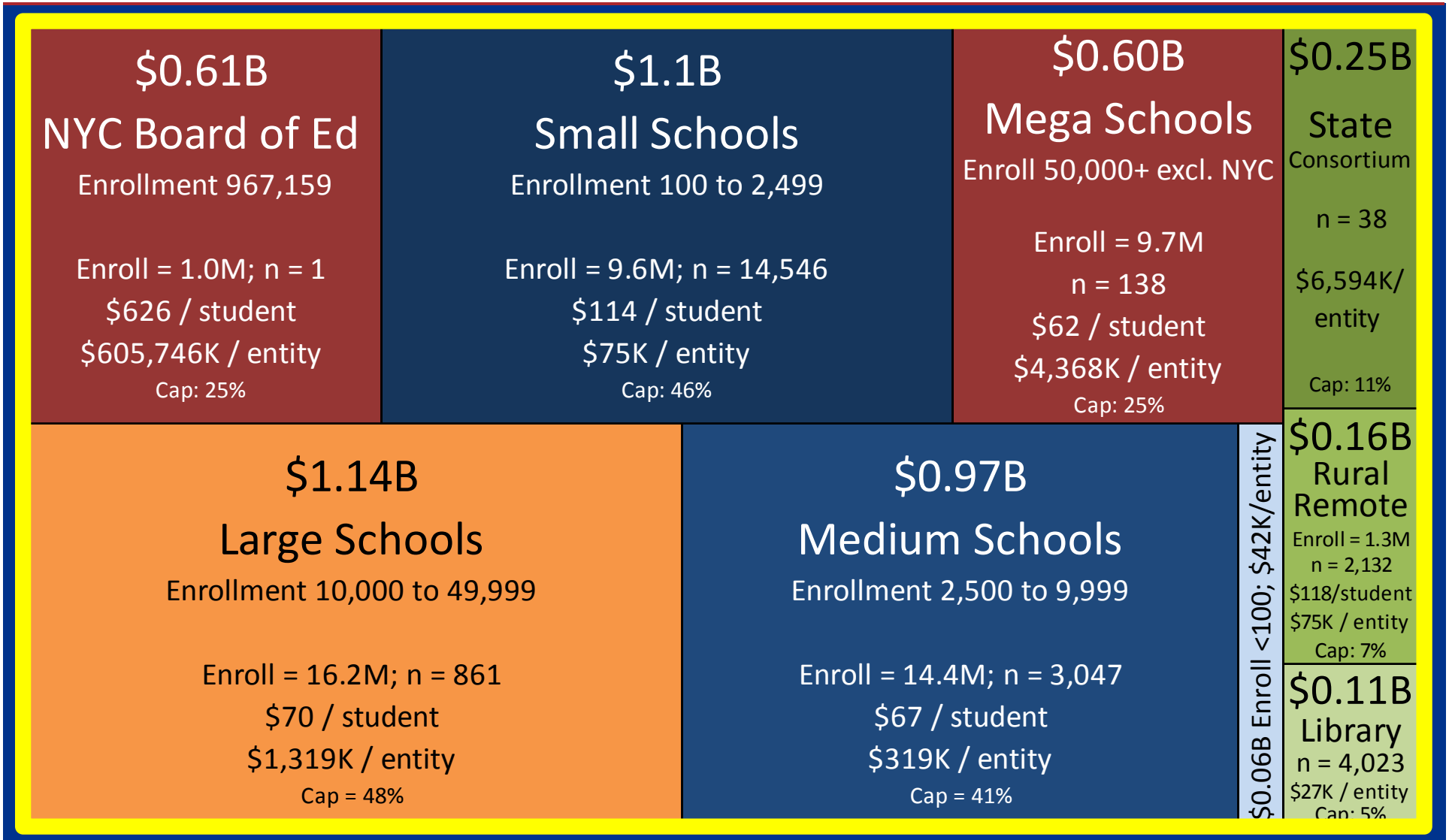


## FY2013 E-rate Demand $4.99 Billion

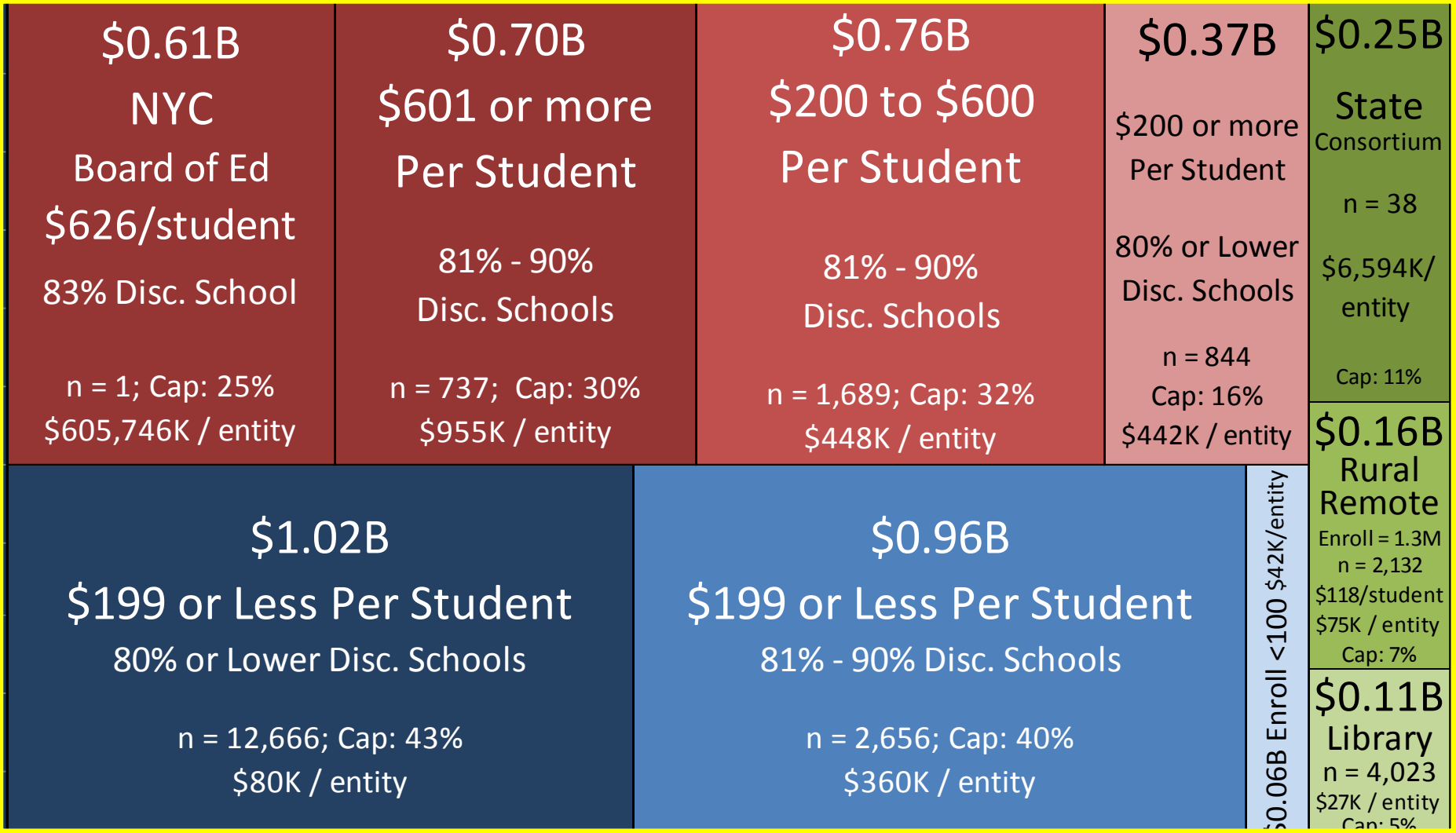
# By Service Provider Type



# FY2013 E-rate Demand $4.99 Billion
# By School District Size



# FY2013 E-rate Demand $4.99 Billion
# By Amount Requested Per Student



# Alternative Solutions

## Most could work in conjunction with E-rate 2.0 proposed budget system

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

# Eliminate State Consortium

- Rationale
  - State networks take funding away from individual schools and libraries.
  - E-rate was not designed to help state budgets.
  - Applicants can still choose to use state network via Form 470 competitive bid process
- Weakness
  - Eliminating state consortium would recover $250M (FY2013 demand), not enough to fix problem

# Eligible Services Changes

- Rationale
  - Set min and/or max levels of technology support
  - Stop funding out dated services (e.g. POTS)
  - Stop “gold plating” (e.g. excess Internet bandwidth)
- Weakness
  - Detailed definitions require on-going adjustment
  - New standards add complexity to application review
  - Opens door to gaming system. For example, if 100 MB connections were allowed, but Gigabit connections were not, an applicant might lease ten 100 MB lines.

# Discount Matrix Changes

- Rationale
  - Reduce the demand by decreasing discount rates.
  - This will also encourage better bargain shopping.
- Weakness
  - Discount rates cut in half to meet current demand
  - Does not address insufficient E-rate funding or inadequate priority system
  - Offers no protection against mega funding requests
  - Hardest on poorest communities. For example,
    - 90% disc. => 80% disc.: *applicant payment +200% (double)*
    - 20% disc. => 10% disc.: *applicant payment +12%*
  - Majority of 90% schools are not "big spenders"

# Purchasing Exchanges

- Rationale
  - Require schools to purchase goods and services via a cooperative buying exchange.
  - Volume discounts and centralized decision making will yield better pricing and choices.
- Weakness
  - Most already have access to state master contracts
  - Consortium applications currently allowed
  - Increasing demand driven primarily by additional services (i.e. higher bandwidth), not higher pricing
  - Technology needs vary dramatically among schools